Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	

COMMENTS OF WORLDCOM, INC., D/B/A MCI

WorldCom, Inc., D/B/A MCI ("MCI") hereby files comments in response to the Notice of Proposed Rulemaking issued by the Federal-State Joint Board on Universal Service regarding the Commission's rules related to high-cost universal service support and the ETC designation process.[1]

I. INTRODUCTION AND OVERVIEW

In the Notice of Proposed Rulemaking (Notice) the Joint Board asks a series of questions aimed at determining whether the dual goals of preserving universal service and fostering competition continue to be fulfilled.[2] In particular, the Joint Board seeks to review the Commission's rules relating to high-cost universal service support in study areas in which a competitive eligible telecommunications carrier (CETC) is providing service, as well as the Commission's rules regarding support for second lines.[3]

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[1] Federal-State Joint Board on Universal Service Seeks Comment on Certain of the Commission's Rules Relating to High-Cost Universal Service Support and the ETC Designation Process, CC Docket No. 96-45, FCC 03J-1, rel. Feb. 7, 2003 (Notice).
[2] Notice ¶ 1.
[3] Notice ¶ 1.

In general MCI urges the Joint Board to not recommend any significant changes to the methodology and process for calculating and providing support in competitive study areas. Although the amount high-cost support provided to CETCs is increasing, it remains such a small portion of the total high-cost support provided to all carriers that the Joint Board need not recommend at this time any policy changes in an effort to decrease the support provided to CETCs.

CETCs received only approximately 3.3 percent of the total high cost support provided to ETCs in the first quarter of 2003. This is an increase over the third quarter 2002 support amount of 1.8 percent, but nevertheless it is still only *3.3 percent* – a very small portion of the total high-cost support. Moreover it is much easier to nearly double the support amount to CETCs when the starting point is close to zero. It is therefore too early to conclude that the support provided to CETCs is somehow unreasonable or that the small increases in support for CETCs are indicative of what will occur in the future. MCI supports the Joint Board and Commission efforts to discipline fund growth and has long argued that the increasing fund size and the decreasing contribution base are threatening the viability of the support mechanisms.[4] Nevertheless, current data does not show that the small amount of support provided to CETCs is driving the universal service funding needs to unsustainable levels.

In addition, the universal service support mechanism as it exists today fosters competition. So long as universal service payments are made equally available to all competitors, and are collected proportionally from all users of the network, competition will thrive in an economically efficient manner.

MCI also encourages the Joint Board to recommend continuing to provide support for all lines until the administrative difficulties associated with identifying primary lines are resolved and the Commission assures itself that limiting support to primary lines will not harm competition.

Finally, MCI supports several of the Joint Board's possible suggestions with regard to the eligible telecommunications carrier (ETC) designation process, including federal guidelines that states could use in designating ETCs.

II. UNIVERSAL SERVICE SUPPORT SHOULD NOT BE TIED TO INDIVIDUAL COMPANIES' COSTS

The Joint Board asks whether the Commission should calculate support for a CETC based on its own individual costs and whether such support should be based on the CETC's forward-looking economic costs or embedded costs.[5] Ideally, universal service support should be divorced from the incumbent's, or any other carrier's, individual embedded costs. Linking support to a carrier's individual costs reduces the carrier's incentive to control its costs. If a carrier knows that its customers only have to pay, for example, $20 per line per month and any costs in excess of that will be paid by the universal service fund, that carrier has essentially no incentive to control its costs.

This adverse effect is made even worse if multiple carriers were to receive universal service subsidies based on their own individual costs as the Notice proposes. In this case, the universal service fund would subsidize the inefficiency of each carrier. Under this scenario, universal service would be provided, but at a higher overall cost than necessary.

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[4] *See, e.g.,* WorldCom Comments, In the Matter of Federal-State Joint Board on Universal Service et al., CC Docket No. 96-45, filed Feb. 28, 2003; WorldCom Reply Comments, In the Matter of Federal-State Joint Board on Universal Service et al., CC Docket No. 96-45, filed April 18, 2003.

To avoid this inefficient outcome, the economically appropriate method for determining universal service support is the approach taken by the Commission in its universal service plan for non-rural carriers. That is, the Commission identifies the services to be supported, determines the economic forward-looking cost of providing those services, and provides a subsidy equal to the difference between the economic forward looking cost and the end-user rate that the regulator deems acceptable.

Under this plan, the Commission identifies the cost of universal service for non-rural carriers using the Synthesis Model, which identifies the economic cost of a switched network capable of providing the voice and related services that the Commission deemed a part of universal service. The Synthesis Model is not based on the costs of any individual carrier, but instead estimates the economic cost of a hypothetical, efficient carrier that would build the network from scratch, using forward-looking technology. The per-line support that results from this cost model is available to any carrier determined by the states to be an eligible telecommunications carrier. This methodology encourages competitive entry while at the same time preserving universal service.

Basing universal service support on an individual carrier's embedded costs would have the further negative of requiring each carrier that wished to receive support to provide its costs to the regulators in a consistent format. Since carriers may use different technologies to provide universal service, it would be difficult to develop a consistent and fair method of reporting costs. By relying on the economic costs of providing service, divorced from any carrier's individual costs, this problem is avoided.

At present, the universal service support mechanism for rural companies is based on the incumbent carrier's embedded costs. While this is not ideal, it is the most

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[5] Notice ¶ 18.

administratively workable method for determining rural carriers' costs without applying a cost model, because it avoids the task of obtaining cost information from a multitude or rural LECs. In addition, since the rural incumbents still serve the vast majority of lines in each serving area, using the incumbent's cost per-line gives the best approximation of the cost of serving the entire area. Furthermore, given the relatively small inroads that competitive carriers have made into rural companies' serving territories, there is no need for competitive carriers report their costs.

The Notice also seeks comment on capping the universal service fund.[6] Currently, the universal service support received by carriers who provide service through the use of unbundled network elements (UNEs) is capped at the amount of the UNEs those carriers pay. However, capping USF at this level ignores the substantial additional costs those carriers must incur to provide service. As MCI demonstrated in the Commission's Triennial Review proceeding, CLECs bear substantial costs in addition to UNEs to provide service, including at a minimum the costs of operations support systems (OSS).[7] Unless a CLEC achieves a substantial market share, that CLEC's costs for providing service are likely to be well above those of the incumbent. Limiting support paid to CLECs to only the cost of UNEs ignores these other substantial costs. In addition, because the support the incumbent receives is not limited to the cost of UNEs, the CLEC is placed at a competitive disadvantage.

Finally, the notice asks whether there should be a cap placed on the support received by CLECs similar to the $650 million cap placed on interstate access support

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[6] Notice ¶ 21.

[7] *See* Letter from D. Sorgi to W. Maher re: Modeling the Cost of Serving Residential Customers Using UNE Loops, CC Docket No. 01-338, dated Jan 8, 2003. For those CLECs that provide service via UNE-

received by the incumbents.[8] Since the support paid to the CLEC is equal to the per-line support that the incumbent receives, including this capped interstate access support, it is unclear how the CLEC can receive more than the incumbent would receive. Thus, no modification is needed to the current rules to reduce the support received by the CLEC.

III. LIMITING SUPPORT FOR SECOND LINES COULD HAVE UNINTENDED MARKET CONSEQUENCES

Limiting support to just one line per-household or per-residence would necessarily result in a higher charge for any second line. Because the cost to the consumer would be higher, there would be some reduction in the quantity of second lines demanded. This reduction in demand would potentially make it more difficult for carriers to compete for second or additional lines. This would present a barrier to entry especially for competitive carriers, which customers often select for second lines on a "trial run" basis. This reduction in demand also would reduce the potential pool of customers for the competitive carrier to select from.

In addition, MCI has not determined a way for the Commission to overcome the administrative difficulties associated with identifying a primary line. The Commission has previously acknowledged these difficulties,[9] and MCI is not aware of any circumstances that would change the Commission's prior conclusions. For example, where two housemates each have a different line and only primary lines are supported, how is it determined which line receives support? If a customer has two lines, one from the incumbent and the other from a competitive carrier, how is it determined which carrier would receive support? Not only is this a practical problem, but a potential

loop, there are substantial additional costs for collocation and digital loop carrier equipment, as well as an expanded OSS.

[8] Notice ¶ 23.

competitive issue as well. These administrative difficulties, combined with the potential competitive effects, suggest that it may not be prudent at this time to limit support to primary lines. But because MCI is concerned about the growing fund size, limiting support to primary lines may be an appropriate course of action assuming realistic solutions are developed for identifying and supporting primary lines and ensuring that competitive carriers would not be harmed.

IV. GREATER CONSISTENTCY AMONG STATES IN ETC DESIGNATION PROCESSES AND REQUIREMENTS WOULD BE HELPFUL

MCI would find it extremely useful if the Commission were to establish permissive federal guidelines for states to use in designating ETCs pursuant to section 214(e)(2) and/or to encourage states to have similar ETC designation standards, as suggested in the Notice.[10] MCI, a national carrier, currently is considering seeking universal service support in certain zones in additional states, and would find it to be much more administratively simple to not have to comply with ETC designation processes and requirements that vary depending on the state. Greater consistency among the states in performing the public interest evaluation is also indeed desirable, and MCI urges the Joint Board to recommend that the Commission provide guidance to the states in this area. In addition, MCI has found the ETC designation process to be slower than expected, particularly in certain states. MCI acknowledges the limited resources of many state commissions and the breadth of proceedings requiring their attention; nevertheless, delays in designating ETCs harms carriers and their customers. We therefore urge the Joint Board to recommend a reasonable time-frame for the disposition ETC designations.

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[9] *See* CALLS Order, 15 FCC Rcd at 13002, ¶ 100; MAG Order, 16 FCC Rcd at 19636-19637.
[10] Notice ¶ 34.

V. CONCLUSION

For the reasons described above, the Joint Board should not recommend any changes to the high-cost support mechanism in competitive study areas at this time. The Joint Board should however recommend that the Commission adopt permissive federal guidelines for ETC designation requirements and processes.

Respectfully submitted,

/s/

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